

Message Text

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AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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SUBJ: PRESS REPORT OF DLR 4 BILLION US LOAN TO ITALY

REF: ROME 6069

1. /SUMMARY/. ROME S DAILY "IL TEMPO PUBLISHED

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FRONT-PAGE ARTICLE ON APRIL 14 BY ITS WASHINGTON CORRESPONDENT

MARINO DE MEDICI ALLEGING THAT SECRET NEGOTIATIONS ARE BEING HELD BETWEEN USG AND GOI IN PREPARATION OF FINANCIAL ASSISTANCE OF UP TO DLR 4 BILLION FOR ITALY. LOAN IS SAID TO BE MOTIVATED BY POLITICAL AS WELL AS ECONOMIC CONSIDERATIONS. FOLLOWING IS TEXT OF ARTICLE.END SUMMARY.

2. BEGIN TEXT. DATELINE WASHINGTON, APRIL 13.
HIGH-LEVEL SECRET CONTACTS ARE BEING HELD BETWEEN THE ITALIAN GOVERNMENT AND THE AMERICAN GOVERNMENT WITH REGARD TO THE GRANTING OF A LARGE AMOUNT OF FINANCIAL ASSISTANCE FROM THE US TO ARREST THE CONSTANT DETERIORATION OF ITALY' FINANCIAL AND ECONOMIC SITUATION. THE CONSULTATIONS BETWEEN THE TWO GOVERNMENTS IS BEING CONDUCTED DIRECTLY BETWEEN THE TWO MINISTERS OF THE TREASURY SIMON AND COLOMBO, AND FORESEES SHORT-TERM ASSISTANCE AIMED AT SUPPORTING THE LIRA BUL ALSO IMPLIES MEDIUM-TERM FINANCIAL ASSISTANCE WHOSE POLITICAL MOTIVATION CAN ONLY BE THAT OF SUPPORTING THE ROME GOVERNMENT.

3. CONTACTS NOW UNDERWAY HAVE NOT YET REACHED THE POINT OF DETERMINING THE TOTAL AMOUNT AND THE TIMING OF FINANCIAL SUPPORT FROM AMERICA BUT INDICATIONS LEAD TO THE BELIEF THAT THE FINANCIAL ASSISTANCE BEING CONSIDERED COULD REACH THE AMOUNT OF DLR 4 BILLION (EUQIVALENT TO MORE THAN 3500 BILLION LIRE).

4. THE CONTACTS BEGAN A MONTH AGO IN ROME ON THE OCCASION OF THE VISIT OF THE US SECRETARY OF THE TREASURY SIMON, BUT ONLY IN THE LAST TEN DAYS HAVE THE AUTHORITIES IN WASHINGTON FACED THE URGENT POLITICAL NEED OF SUPPORTING ACTION FOR THE ROME GOVERNMENT. ITALY'S REQUIREMENTS ARE BEING EXAMINED NOT ONLY WITH REGARD TO IMMEDIATE LIQUIDITY NEEDS BUT WITH REGARD TO MEDIUM-TERM CREDIT REQUIREMENTS IN TERMS OF A LARGE PACKAGE NOT UNLIKE THAT WHICH FORMER BANK OF ITALY GOVERNOR GUIDO CARLI NEGOTIATED IN A PERIOD OF JUST A FEW DAYS IN THE SPRING OF 1964 AMOUNTING TO A BILLION DOLLARS. IT IS EVIDENT THAT THE DIMENSIONS OF AMERICAN ASSISTANCE MUST BE MUCH GREATER IN THE SPRING OF 1976, NOT ONLY BECAUSE OF LARGER FINANCIAL PARAMETERS, BUT ALSO FOR THE POLITICAL EFFECT REQUIRED IN THE PRESENT SITUATION. IT IS THE POLITICAL CLIMATE, IN FACT, WHICH IS PROVOKING AN EXCESSIVE DEPRECIATION OF THE CURRENCY. THE ITALIAN LIRA IS IN FACT UNDERVALUED WITH RESPECT TO THE UNDERLYING ECONOMIC
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POSITION OF THE COUNTRY.

5. IN THE COURSE OF HIS VISIT TO ROME, SECRETARY OF THE TREASURY SIMON HAD SPOKEN AT LENGTH OF THE EXPECTED ENTRY INTO FORCE OF THE "SAFETY NET" THE SO-CALLED "KISSINGER-SIMON PLAN" WHICH ITALY COULD DRAW UPON UP TO A MAXIMUM AMOUNT OF DLR 1600 MILLION.

6. IN HIS ROME PRESS CONFERENCE, SIMON, HIMSELF HAD SAID

THAT THE UNITED STATES WOULD NOT ABANDON ITALY IN ITS MOMENT OF NEED BUT AT THE SAME TIME HAD WARNED THAT THE GRANTING OF NEW CREDITS TO ITALY "IS INTIMATELY CONNECTED WITH THE ADOPTION OF PROPER ECONOMIC POLICIES" BY THE ITALIAN AUTHORITIES. SINCE THEN, HOWEVER, ITALY'S ECONOMIC AND FINANCIAL SITUATION HAS BECOME MORE CRITICAL, FORCING WASHINGTON AUTHORITIES-- THE WHITE HOUSE THE DEPARTMENT OF STATE, AND THE TREASURY DEPARTMENT --TO RE-EXAMINE THE AMERICAN POSITION ON AN EMERGENCY BASIS. IN FACT THE EMERGENCY CONSULTATIONS BEGAN FOLLOWING A SECRET COMMUNICATION FROM ROME. LITTLE MORE THAN 2 MONTHS AGO REPLYING TO A SPECIFIC REQUEST FROM THE ITALIAN GOVERNMENT, THE AMERICAN FEDERAL RESERVE HAD AUTHORIZED USE OF A SWAP CREDIT FOR ITALY OF UP TO DLR 750 MILLION, THE MAXIMUM AMOUNT OF THE SWAP LINE IS DLR 3 BILLION FOR ITALY.. , BUT THE AUTOMATICITY OF DRAWINGS IS, IN FACT, LINKED TO THE GENERAL ECONOMIC AND FINANCIAL SITUATION. IT IS NOT KNOWN TO THAT EXTENT ITALIAN FINANCIAL AUTHORITIES HAVE USED THE SWAP FUNDS AT THEIR DISPOSAL, WHICH ARE GRANTED ON A VERY SHORT-TERM (3-MONTH) BASIS. IN THE VERY GRAVE SITUATION WHICH NOW CONFRONTS ITALY, WHICH EVEN TODAY PROBABLY FORCED THE BANK OF ITALY TO INTERVENE IN SUPPORT OF THE LIRA, NEW SWAP CREDITS SEEM TO BE REQUIRED, BUT ALSO CREDITS FROM PRIVATE AMERICAN BANKS WITH GUARANTEES FROM OFFICIAL US GOVERNMENT AGENCIES. THIS PRESUPPOSES A POLICY DECISION TO INTERVENE TO HELP THE ITALIAN GOVERNMENT IN FAVOR OF ITALIAN DEMOCRACY BUT WHICH CANNOT ALTER THE HEAVY AND MOPPELLING RESPONSIBILITY WHICH FALLS UPON ITALIAN DEMOCRATIC FORCES.

6. REPLYING TO TWO QUESTIONS FROM AMERICAN EDITORS DURING A MEETING OF THE PRESS ASSOCIATION OF WASHINGTON, THE SECRETARY OF STATE RECALLED THAT IN 1948 IN THE FACE OF A SITUATION SIMILAR TO THE CURRENT ONE IN WHICH IMMEDIATE REFORMS WERE IMPOSED, EUROPEAN COUNTRIES APPROACHED THE US AND FORMULATED PROGRAMS FOR INTRODUCING SUCH REFORMS. THE CHOICE OF THAT DATE UNCLASSIFIED

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REVEALS THAT ONE COUNTRY ABOVE ALL OTHERS IS AT THE CENTER OF WASHINGTON CONCERN: ITALY. AFTER HAVING AFFIRMED THAT "ITALIANS MUST DECIDE THEIR OWN DESTINY, KISSINGER WARNED THAT "ONE SHOULD HAVE NO ILLUSIONS ABOUT THE VERY SERIOUS LONG-TERM CONSEQUENCES" WHICH COULD DEVELOP FOR THE ENTRY OF THE COMMUNISTS INTO GOVERNMENT.. "I DO NOT THINK THAT THE CURRENT TENDENCIES IN FAVOR OF COMMUNISM ARE INEVITABLE BUT IF THEY ARE I DO NOT BELIEVE THAT THEY ARE DESIRABLE," AFFIRMED THE SECRETARY AND HE ADDED, "IT IS MY DUTY TO WARN ABOUT THE SERIOUS CONSEQUENCES. IF SUCH A DEVELOPMENT SHOULD MATERIALIZE, WE WOULD HAVE TO FACE UP TO IT, BUT IT WOULD CERTAINLY AMOUNT TO A HISTORIC CHANGE IN ATLANTIC RELATIONSHIPS."

7. THE SECRETARY OF STATE HAS ALSO EXPRESSED FEAR THAT THE ENTRY OF COMMUNISTS INTO GOVERNMENT IN WESTERN EUROPE COULD

PRODUCE A CHAIN REACTION OF EVENTS TEMPTING OTHER COUNTRIES
TO MOVE IN THE SAME DIRECTION.END TEXT.

8. /COMMENT/. IN VIEW OF RECENT TURMOIL IN ITALIAN MARKEZS
(REFTEL) PARTICULARLY SHARP DROPIN LIRA EXCHANGE RATE, PRESS
SPECULATION ABOUT US OR OTHER FOREIGN FINANCIAL
IS NOT SURPRISING. INTERESTINGLY ENOUGH, ESPECIALLY SINCE RECENT
ROME VISIT OF SECRETARY SIMO, ITALIAN PRESS HAS BEEN MUCH
MORE INCUNED THAN PREVIOUSLY TO STRESS NEED FOR ADOPTION
OF CORRECTIVE ECONOMIC PLICIES AS SOLUTION TO ITALY'S ECONOMIC
AND FINANCIAL PROBLEMS THAN TO FAVOR FURTHER RESORT TO FOREIGN
CREDITS ESPECIALLY IN VIEW OF ITALY'S ALREADY LARGE FOREIGN
DEBT BURDEN. NOTE THAT "IL TEMPO "IS ONLY PAPER SO FAR WHICH
HAS REPORTED ALLEGED LOAN NEGOTIATIONS,SO DEGREE OF LOCAL
INTEREST IS YET TO BE DETERMINED.VOLPE

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